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May, 1958

Liquidations without
losses —page 1

Need for rural credit
grows —page 21

THE

Credit Union

Ridley

EXCHANGE

UNIVERSITY MICROFILMS
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ANN ARBOR MICHIGAN

OFFICIAL PUBLICATION OF THE CREDIT

ON THE COVER

Farmers are using more types of specialized machinery each year, and the need for credit rises with the need for mechanization. See story, page 21.

The Credit Union

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COMING SOON

Protestant credit union missionary

Liability check list

HANDLING LIQUIDATIONS

without loss to the members is a problem that comes up whenever a plant closes. Living with the volatile auto industry, the Michigan League has learned to cope with the problem.

LAST November the president of the Daisy Employees Credit Union of Plymouth, Michigan, called the league office to say that the Daisy Air Rifle Company was going to close its plant in Michigan and move to Arkansas.

The credit union was in no trouble dollarwise. It had assets of \$250,589, of which \$156,684 was in loans to members. Only \$7,871 was delinquent. Employees not moving to Arkansas were promised generous termination pay by the company, which was in no financial difficulties, so that collecting loans apparently would not be too tough.

What was eating the officers of the credit union, however, was that they did not want to liquidate. They had operated a good credit union for many years, most of them intended to stay in Plymouth if they could man-

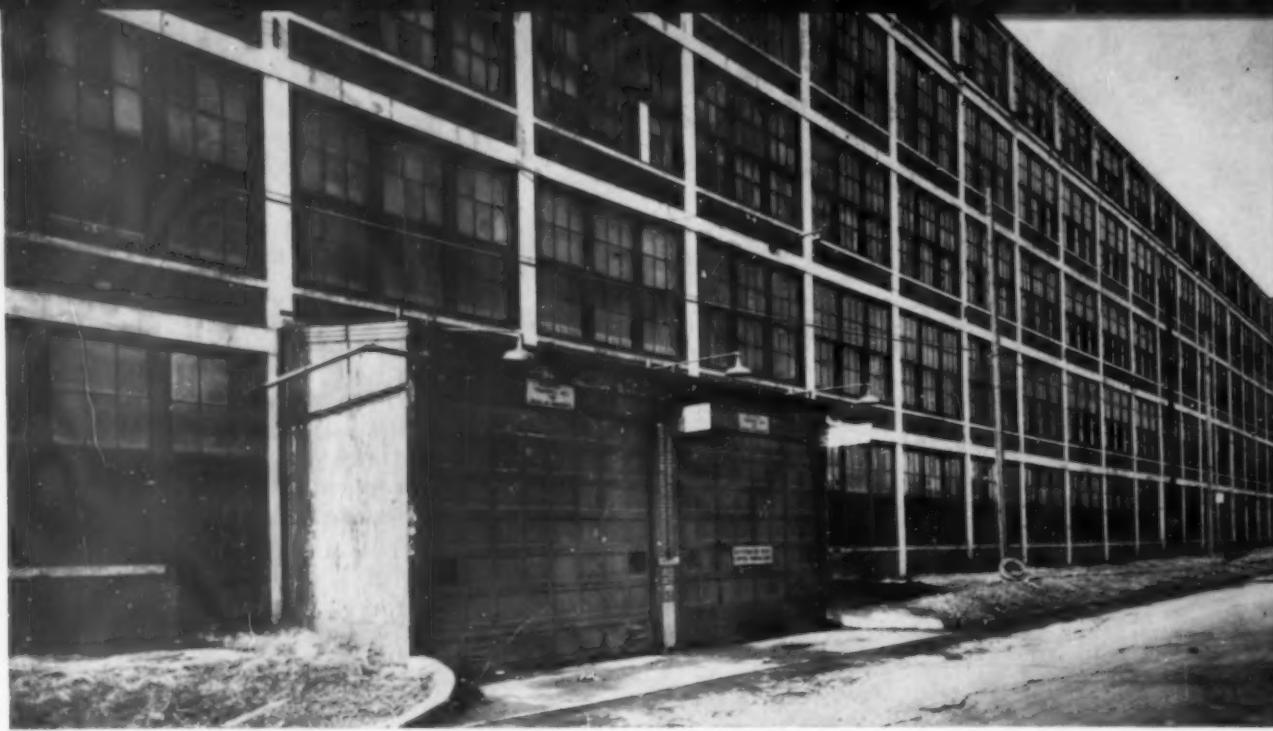
age it, and they were already discussing among themselves the possibility of broadening their charter to serve the whole community.

All these credit union officers wanted from the league was a little encouragement, which they got. The Michigan Credit Union League, through hard experience, is now prepared in all its departments for plant closing and liquidation problems. Its field service, its stabilization services, its technical assistance division, its creditors' collection service, its public relations department, its publications department are ready to pitch in and help a credit union through the rigors of liquidation.

In the past three years, 45 credit unions have received aid from the stabilization fund; all but 3 of these went through liquidation. Some others succeeded in liquidating without fi-

Plant closings have hit Michigan harder than most states since the auto industry first ran into trouble with its 1956 models.





nancial aid. No member in an affiliated credit union has lost a cent due to liquidation since the fund was established.

The Daisy group were fully prepared to carry the ball themselves. League staffers Dublin, Schwab and Segadelli offered them advice at various stages.

On November 12 Schwab, district manager for Detroit, met with the Daisy board. The problems involved in opening up a federal charter were discussed. Several examples were fresh in everyone's mind: how the small Ford plant in Iron Mountain closed and the credit union became a community group; how, when the Kaiser-Fraser credit union lost its field of membership, it was resurrected as the Wayne Community Federal Credit Union.

The stabilization service was also discussed. Although it didn't look as if Daisy would need money, Schwab explained the rationale of the fund. Basically, he said, the policy is to pump in aid only when it is clear that the credit union officers have done all they can and other league services can't solve the problem.

There was another meeting November 26. This time Schwab took with him Lou Segadelli, league public relations director, and Dennis D'Arcy, manager of the Wayne Community Federal Credit Union which had once

been Kaiser-Fraser. The directors said they had talked with their members and found strong support for the idea of a community charter. They were advised to put off applying for a charter revision until they had canvassed the community and found out what sort of support they could expect.

December 12 Schwab met with them again. They had talked with businessmen, community leaders and employees around Plymouth and had been well received. Most businessmen seemed enthusiastic at the idea of having community credit union service for their small employee groups. Some had volunteered payroll deduction. It was agreed the time had arrived to get in touch with the Bureau of Federal Credit unions.

Meeting the Lions

On December 23, a meeting was arranged with the Plymouth Lions Club. About twenty were present, to hear Jack Dublin, league field services director, explain the project and answer questions. Only one raised any objections—an employee of a local finance company.

Meanwhile, the credit union was still growing. Between October 30 and December 31, there was a gain in assets of \$11,000. The annual meeting was held as scheduled, and a 4 per-

cent dividend and 10 percent interest refund were approved. Not at any time did the officers or members get panicky. At mid-March, the plant had still not closed, the credit union was still operating, and the officers were waiting anxiously for the approval of the Federal Bureau.

Few credit union crises go as smoothly as this one. Michigan is probably the nation's number one crisis area right now, with its heavy concentration on cars, durables and machine production. At last count, unemployment in Michigan had claimed 14.3 percent of the labor force; and for some of the jobless, unemployment benefits were running out. There hasn't been a time in the last two years when the Michigan Credit Union League hasn't had several plant closings to deal with. Some of them would have been disasters without league intervention.

None has been worse, however, than the first of them—Kaiser-Fraser. This was a nightmare. Everybody knew, of course, that this auto company was in trouble, but the closing of the plant came without warning when a big defense contract was cancelled. The officers had no time to prepare themselves, and the league had not yet set up its stabilization services.

The credit union was about five years old at the time. During its first



A closed plant means the common bond of the credit union has been broken. Sometimes a new common bond can be found.

three years there had been some loose practices resulting in a heavy load of delinquencies. Many of these were still haunting the board in June 1953, when the plant shut down.

The assets of the credit union at the time were \$638,000, of which the Bureau specified \$242,000 as loss loans. Since the credit union had already borrowed to the legal limit to take care of loan demand, there was no possibility of further borrowing to meet share withdrawals. The 60-day notice privilege had to be invoked. With job-hungry borrowers taking off in all directions, there were urgent conferences between board members and league representatives. One thing was clear to the leaders of the Michigan movement: for many good reasons, they couldn't let a big credit union like Kaiser-Fraser go down the drain.

Two principal steps were taken. One was to work out a community charter, which was done in the spring of 1954, after the members had voted for a 20 percent scale-down. The other was to buy up a large bundle of the credit union's notes: this was done by selling stock in the hitherto small league collection service. Enough was subscribed so that the league bought up \$242,000 of loans at a price of \$150,000.

The new Wayne Community Federal Credit Union started business in

January 1955 with slightly less than \$100,000 in assets, all of which were old Kaiser-Fraser loans that were 90 percent delinquent. For the next ten months, the credit union barely held its ground; assets at the end of November were still under \$100,000. At this point, however, the community began to show confidence in the new credit union, and savings started coming in. Today the credit union stands at a half-million, and the old Kaiser-Fraser loans are no longer a worrisome feature of the financial statement. The league creditors' service, as it is now called, still shows Kaiser-Fraser loans as its largest uncollected group, however. Nothing that has come up since has been so staggering.

Morale is vital

In handling the Kaiser-Fraser case and dozens of smaller problems since, the Michigan League has learned some basic principles.

First, says field services director Jack Dublin, morale is everything. You can't help people that don't want to be helped. On the other hand, when people want help, there's always some way to solve their problem.

Morale is a hard thing to judge. In an industrial credit union, it is affected by various factors: confidence in the credit union, confidence in the company, confidence in the economy. There are probably at least two kinds

of morale: short-term and long-term. A sudden rumor may cause a run on a credit union whose members have always shown perfect confidence; if the run is met calmly and the members discover that they can have their money when they want it, they will bring their money back the next day and you would never know their morale had wavered.

When rumors get around that a plant is likely to close, morale inevitably sags. Immediately, you can expect to see loan payments slow down. There may also be share withdrawals. It is important at such a time for the credit union management to make it clear that the credit union will proceed on an orderly basis. Collections should be systematic. If members leave for other jobs, contact with them must be kept up. It should be made clear to the members that there will be no moratorium on debts as long as they are working.

Steps should be taken to prepare for the possibility of a run. Liquidity should be established. If the credit union's assets are not sufficiently liquid, arrangements should be worked out, if possible, for loans to meet withdrawals.

In case of a run, the best procedure is to pay out the money freely as long as the withdrawals continue. This may involve liquidating investments or borrowing; even so, this is a small

price to pay for the improvement in morale that results when members find their money is readily available. If there is any chance that the credit union will continue to operate, the 60-day notice procedure should be avoided if possible.

However, occasionally it becomes necessary to invoke the 60-day notice, because for one reason or another sufficient cash cannot be rounded up to meet the run. Normally, the members will look at this as the first step in liquidation. Yet even after taking such a step, if the officers think they see some chance of saving the credit union, it can probably still be done, Dublin says, if there is still any reasonable basis for a field of membership.

Statements made to the members during such an emergency should be carefully considered. It's not easy to be sure your statement will raise rather than lower morale. One credit union helped bring a run on itself by informing members that there was an increase in personal bankruptcies among the group.

Every plant closing involves so many local and unique conditions, however, that an individual program has to be worked out for each one. Occasionally it is possible to find a new common bond for the credit union. Once in a blue moon there is the possibility of a merger. Often there is no answer but to liquidate, and then it is simply a problem of paying the members 100 cents on the dollar. Where it is possible to pay more, the officers of the credit union will usually be glad to handle all the liquidation details themselves. The Michigan stabilization service was set up simply to assure a dollar-for-dollar payoff, and when it buys up a liquidating credit union's loans, it pays no more than that. The league will act as liquidating agent or receiver, but this service in itself is separate from the stabilization service.

For variety, take a look at a few other liquidations the Michigan League is now or has recently been working on:

Pressed Metals Employees. This credit union was organized 1951. It hit bad luck year after year. In 1952 there was a six-week strike. In 1953 there were lay-offs. In 1954, employees had only six 40-hour weeks in the year. 1955 was not bad, but in 1956 the work-week varied between one and four days. March 1957 the

plant came to an almost complete stop. From 1954 on, there were rumors the plant would close.

Through all this, the officers maintained their interest in the credit union. Assets on January 31, 1958 were \$8,166. Loans were \$4,128. Withdrawals were not a problem until this January. Delinquencies had reached \$1,329. Peak loan volume of the credit union was reached May 1957, at a level of \$3,731. There were lay-offs during July, September and December. The field of membership dropped from 140 to 80.

Notice that the plant would close was posted December 27. The board placed a 60-day requirement on share withdrawals. When it was definite that the plant would not be sold as a going business, the board voted to recommend liquidation. On February 10, the league was asked to take over as liquidating agent and also furnish stabilization services. Feeling that the board had made commendable efforts over a series of tough years, the league took over promptly, buying \$2,903 of loans and allowing the credit union to liquidate at no loss to the members.

Timeo Employees. This credit union had been in operation slightly less than a year, and achieved a loan volume of \$7,630, when the plant burned down. The credit union records were completely destroyed. The credit union was operating with payroll deduction and no pass books. The last statements had been mailed to members June 30, 1956; the fire occurred January 23, 1957.

Not even a list of members survived the fire. Trying to reconstruct its financial statement and records, the credit union was able to get acknowledgements of \$2,939. Responsibility for the remaining \$3,127 was never established, and a bonding claim for that amount was filed. The league is liquidating agent; and since the company is out of business, stabilization services may be granted if needed.

Packard. The Packard plant in Detroit was closed down completely in 1956, and production of Packard cars was transferred to South Bend, Indiana. However, the closing did not come without warning, and by careful planning the board of this credit union was able not only to survive the storm but to come out with a new and thriving credit union in the Packard Utica-Bend plant.

"Went to see Kelly about the stories that were in the paper and how they would affect the credit union," reported a league field man on August 16, 1956. "They are causing heavy withdrawals, but the credit union has enough cash on hand to handle them so far . . . Told him that the league would help him obtain money from other credit unions if necessary."

On August 20 the field man called again. "Employment in the Packard plant has dropped to a few hundred," he reported. Sending out a letter was discussed, but the idea was dropped to avoid causing alarm. During September, shares dropped \$45,000 and loans outstanding were reduced by \$40,000. This steady melting down went on in a calm atmosphere, and by March 1957 the credit union had established a new common bond at the Utica-Bend plant and obtained approval of a change in its charter and name. At its annual meeting in January 1958, the Utica-Bend Employees Federal Credit Union reported on its new growth. It had pulled up to more than \$800,000 of assets, it paid a dividend of 3 percent and an interest refund of 10 percent, and proudly reported that in its history its losses on loans were less than $\frac{1}{2}$ of 1 percent.

Hudson Main and Hudson Gratiot. The two Hudson Motor plants in Detroit had separate credit unions. Both were originally federals, but the Hudson Gratiot credit union converted to a state charter just shortly before the main plant began closing in 1954 after the American Motors merger. This change of charter created some confusion and probably contributed to a run that the Hudson Main credit union experienced.

The Hudson Main Plant closed first, at a time when the Credit Union had only half of its million assets loaned out, the other half in cash and savings and loan shares. This helped it meet a run in which \$200,000 was withdrawn in a week. Since, as is often the case, the possibility was held out that the company might continue operations other than automotive in Detroit, the credit union continued as usual. A year or so later, when there was no hope of continued company operations, the officers did not prepare for liquidation early enough. By continuing their credit union opera-

tion too long, valuable reserves were used up.

On March 21, 1957, the credit union had dropped from a million of assets—half in personal loans—to \$122,829, about \$90,000 of which was in personal loans with \$33,950 in the delinquent category. Sixty-day notice was invoked at this point. Work continued at the Hudson Gratiot plant for much longer. This credit union continued its operation with a continuing but declining field of membership.

The possibility of a merger between the two hard-pressed credit unions was briefly explored, but it came to nothing. On April 29, 1957, a special membership meeting of Hudson Main voted to liquidate, and set up a delinquent loan committee. Melting down proceeded slowly. Loans dropped from \$79,260 at the end of May to \$48,533 at the end of October. By Christmas, with the league as liquidating agent, it was possible to distribute 50 cents on the dollar to shareholders, and this was done. More would be forthcoming, shareholders were told, as the league creditors' service continued to make collections. Stabilization service was also a possibility in the background.

Hudson Gratiot melted down in a somewhat more orderly manner. "Mr. Richards," reported a league field man after a call on December 17, 1957, "has maintained a surprising amount of control on his delinquencies while the credit union dropped 80 percent of its shares."

Hudson Gratiot members scattered all over town. Quite a few found places at the General Motors Tech Center. Out of 300 borrowers still on the books at the end of 1957, 117 were in jobs where other credit unions could offer them service. In January, the credit union voted liquidation; it was in good condition to go through it when necessary, and could legitimately ask other credit unions to refinance much of its loan volume. The Ferndale Co-op Credit Union has already purchased \$100,000 of Hudson Gratiot loans and is facilitating liquidation.

The Michigan League does not claim that it can handle any situation that comes along. Its stabilization reserve now totals \$205,000. It will have to be much larger than that before league officers will feel easy in their minds. Fifteen percent of the

(Continued on page 32)



From the managing director

ACT IN BEHALF OF THE CREDIT UNION!

SOMETIMES credit union members think and act in credit union, league, or CUNA meetings in ways not for the best interests of their credit unions and the credit union movement. Sometimes credit union members in credit union affairs let a loyalty other than their credit union loyalty dictate their actions.

It could be that members of a lodge or church temporarily forget that at any credit union policy-making meeting, policy made must be that of the credit union and not that of the lodge or church that furnishes the common bond.

It could happen that members of a community or a cooperative or a union would want to use the credit union formed in that common bond to advance primarily the cause of their community or cooperative or union.

Employees of a company with a credit union might put their employer's wishes ahead of the welfare of their employees' credit union and the welfare of the credit union movement as a whole.

Those things could happen.

Movement

A few weeks ago word came to us of a local political candidate running on a "credit union" platform. Of course, we sent word immediately that he must drop that type of campaign; he was not to use the credit union movement in that manner!

The credit union movement should *not be used* by anyone to further his own political ambi-

tions or to sell commodities or services—or for the profit or advancement of any person or business cause outside the credit union. Benefits will come to the common bond, but they must be incidental, not the primary objective of the credit union.

Credit unions must be in some "common bond" but must be independent in operation according to credit union policy, within that common bond.

Priority of Loyalties

We all have not one, but many loyalties—to our church, to our employer, our political party, our union, our lodge, the school we attended, our business associates, etc., etc., etc. Of course, we have a loyalty to our credit union.

In church meetings we must give priority to the welfare of our church. In credit union meetings top priority must go to our credit union's welfare. That doesn't mean at all that we there drop our other loyalties; but it means that in credit union affairs we must place credit union welfare uppermost in our thinking.

Credit Union Leaders for Credit Unions

Credit unions must continue to grow and must continue to be independent. Credit union leaders must continue to speak for credit unions only in credit union affairs, and employers and other common bond organizations must continue to respect the independence of the credit union movement!

H. Vance Austin

KEEPING COSTS DOWN

Cleveland Telephone makes extensive use of microfilming, and stores 23 years' records in six file drawers.

"KEEPING routine operating expenses at a minimum is one of our board's foremost concerns," says Wilbur J. Brown, treasurer-manager of The Telephone Credit Union, Cleveland, Ohio. "We plan our mechanical operations with an eye for economy and efficiency. This enables us to use a maximum of our income for membership services and education.

"Our sixteen office employees are carefully selected, well-trained and experienced. However, even the most capable staff can not operate efficiently with out-of-date equipment. That's why we are always interested in trying out new time-saving devices. Just because we experiment with a new gadget does not mean that we will buy it. But over the years we have tried to keep up with modern inventions. They help us to cut down our overhead costs by simplifying routine operations, eliminating wasteful practices and saving valuable employee time."

Microfilming all office records is one of the many time and space-sav-

Treasurer Wilbur J. Brown has served Telephone Credit Union as manager since 1938. A live-wire, he believes in cutting costs and increasing membership services.

Telephone spent a lot of time, thought and planning on its office layout. With 4,000 square feet it is designed for growth and will meet the needs of 9,000 members.



ing devices used by this Cleveland group. It began as an experiment some fifteen years ago. Today the Telephone Credit Union's records are stored in a single cabinet, 36" by 28" by 20". Its six drawers have room for 600 film rolls. Each film has a capacity of 3,000 normal size letters; or 6,000 half sheets such as loan applications and loan notes; or 18,000 deposit slips. Comments treasurer Brown: "This cabinet contains the accumulated records of twenty-three years' operations. It is not nearly filled to capacity. I would estimate that it has ample room for the film records of several additional years."

Brown has served Telephone as manager since 1938. For the last nine years he has also been treasurer. Fifty-five years old, he is of medium height and weight and endowed with an abundance of energy. He goes through a thirteen-hour business day with unflagging concentration and a ready smile, never showing a sign of fatigue. Brown's careful attention to details reflects his legal training. He is a graduate of the Cleveland Law

School with the class of 1933 and a member of the Cleveland Bar.

During the depression Brown was employed by a loan company as collector and attorney. "Whenever I sought to collect from the employees of a certain company, they were always able to meet the loan company's demands. This surprised me, because during the early and middle thirties unemployment was high, money was scarce and many wage-earners were unable to meet their financial obligations, through no fault of their own. I inquired why the employees of this company were always able to obtain cash when faced with serious difficulties. And I found out that they had a credit union. This is how I was introduced to the credit union idea."

Here is how Telephone handles its microfilming procedure:

Items microfilmed. Deposit, withdrawal and transfer slips, as well as loan applications and notes, are microfilmed daily. So are the checks received from members for share and loan payments. The machine tapes,

on which the daily bank deposits are added, receive the same treatment. All checks issued to members are microfilmed when returned by the bank after payment. Every three months Telephone makes a film of all of its individual ledger cards.

Money may be microfilmed too, according to Recordak Corporation, manufacturer of Recordak microfilming equipment. This provides a record of serial numbers and would facilitate the apprehension of robbers in the event of a holdup. A regulation issued in 1946 by the U.S. Treasury Department gives banks permission to microfilm currency "provided that the film records are maintained as confidential." But thus far there has been no specific ruling to include credit unions under this regulation.

Time and skill needed to operate filming device. There are two general types of microfilming machines. The smaller ones are manually operated. The larger machines are geared for automatic feeding, but can be adjusted for hand operation. Anyone can learn the simple





technique of operating a microfilm machine in ten minutes or less.

Telephone has some 7,500 members. To microfilm its daily records takes from two to three minutes. Filming every member's individual ledger card, quarterly, requires three hours of operating time. The checks returned with the monthly bank statements consume annually a total of three hours.

Acquisition and operating cost. Acquisition cost of Telephone's automatic microfilming machine was \$1,300. But that was fifteen years ago. Today's purchase price for the same unit would be somewhat higher. Non-automatic machines are available at varying price ranges, beginning with \$600.

The viewer necessary to read microfilmed records can be either purchased or rented. Minimum purchase prices are under \$400. But larger viewing units are more expensive. That is why Telephone prefers to rent its viewer. Rental charges for Telephone's viewer are \$5.11 monthly.

Film rolls are 100 feet long and cost \$5.60 in units of two. Developing charges amount to seventy cents per roll. Telephone uses approximately four films every three months.

Retaining original records. Telephone Credit Union stores all

microfilmed records from between two to seven years in its office vault. Those records which Ohio statutes permit to be destroyed immediately, or two years after microfilming, are held until the next supervisory authority examination. This arrangement meets a request by the Ohio Division of Securities. And since state supervisory examinations are conducted at least once every year, Telephone is able to discard all microfilmed records within twelve months after they have reached statutory obsolescence.

Quarterly statements. Microfilming each member's ledger card every three months has an important effect on the economy of Telephone's overall operations. Telephone does not use individual passbooks. Instead it sends each member quarterly a microfilmed statement of his share and loan ledger card. Comments assistant treasurer Samuel Simon: "The combination of microfilming and single posting substantially reduces our bookkeeping costs. I would say that in our overall operations, it has helped us to cut our working time by approximately one-third. In terms of man-hours, this amounts to an annual saving of over 1,000 working hours. At current pay rates for office help in the Cleveland area this means a saving of more than \$1,500 per year."

But Simon is quick to point out that microfilming is no cure-all. "Don't get the impression that microfilming and quarterly statements can replace passbooks in every credit union. It works in our case because 80 percent of all share deposits are made by weekly payroll deduction. And they are posted once each week. A similar arrangement prevails with most of our thirty-five hundred monthly loan payments. But passbooks could be a necessity if most of our share and loan payments were on a cash basis. Furthermore, some supervisory authorities might not approve modification of the traditional passbook plan."

Mailing of quarterly statements at Telephone is under the direction and supervision of the audit committee. After the ledgers are microfilmed, the film is sent to Recordak in Cleveland for developing, printing and checking for legibility. If the film is found readable, it is forwarded by Recordak to its New York laboratory for statement printing on a continuous printing machine. Recordak's New York office then returns the printed statement positives to Telephone via Railway Express. Recordak's charge: \$60 per one thousand statements.

The completed statements are turned over to a commercial mailing



Ample space for members to transact their credit union business was one of the many points Telephone considered when planning their office.

This Recordak film reader and file uses little space. It helps cutting down working time and more than pays its own way in reduced operational expenses.

house for stuffing. Here Telephone Credit Union's professionally trained audit committee takes charge. It inserts spot check forms and prepaid reply post cards. The replies are returnable to a special post office box which is accessible only to committee members. At this point the mailing house seals and stamps the quarterly statement envelopes. Then it delivers them to the post office.

Telephone's field of membership consists of "employees of the Bell System reporting to the Cleveland district, their immediate families, their organizations and employees of such organizations." Included in this group are local employees of American Telephone and Telegraph Company, Western Electric and Ohio Bell Telephone Company employees. As of March 1, 1958, Telephone's 7,500 members owned \$3,249,590.67 in shares, had accumulated \$3,577,285.13 in assets and were lending \$3,313,389.83 to 3,814 fellow workers. Growth in Telephone's membership, shares, assets and loans has been fairly constant during its twenty-three years of service. But during World War II loans dropped both in numbers and amounts, and membership did not grow at the pre-war ratio although shares increased more than five times.

The most significant period of growth was during the decade follow-

Having the members' share account cards centrally located makes them more readily accessible and saves Telephone's sixteen employees extra footsteps.



ing World War II. Between 1945 and 1950 Telephone's membership grew nearly 80 percent, shares more than 110 percent, assets more than 130 percent, loans more than 160 percent in numbers and more than 500 percent in amounts. During the next five-year period, from 1950 to 1955, growth amounted to more than 30 percent in membership, reaching 6,273; nearly 130 percent in shares, gathering \$2,380,934; more than 115 percent in assets, accumulating \$2,601,686; and more than 50 percent in loan numbers, rising to 3,022; and in excess of 150 percent in loan amounts, growing to \$2,333,214.

What is the secret of Telephone's rapid growth? Says Wilbur Brown: "The major credit for our rapid growth should go to our field representatives. There are two hundred and seventy of them. They are the eyes and ears of our membership. It is due to their constant effort and activity that we have an informed, interested and alert membership.

"I would say that second in importance ranks the educational effort of our volunteer committees and our employed staff to conduct a continuous campaign of publicity and information. Included in this is our annual meeting program, which is a carefully planned educational event. Third among the items influencing our growth is payroll deduction. Most members view this as an important convenience because it facilitates making full use of our credit union services."

Field representatives. The two hundred and seventy field representatives are a carefully selected group of volunteers. All are bonded. They maintain constant contact with the membership and are the intermediaries between the credit union office and the members in the field. Telephone's members are stationed at 117 different locations. At each at least one volunteer field representative operates during break times, lunch periods and before or after working hours. At some locations as many as seven field representatives are assigned to accommodate the needs of members working on three shifts around the clock.

These are the responsibilities of the bonded field representatives: (1) inviting new employees to join; (2) distributing credit union literature; (3) accepting membership applica-

tions from new employees and mailing the completed forms to the credit union office; (4) referring all share and loan payments to the office—although they legally can accept them; (5) taking withdrawal slips to the members for signature; (6) explaining the advantages of borrowing at the credit union compared to borrowing at other institutions; (7) helping members to complete their loan application forms; (8) acting as consultants in the field concerning economic problems; (9) witnessing the member's signature on loan applications and notes; and (10) encouraging the use of payroll deductions for savings.

These enthusiastic fieldmen use a number of devices to encourage members to boost their weekly savings. One of the devices is an offer—underwritten by the credit union—"If you increase your payroll deduction, you'll get your annual meeting dinner ticket at half-price." But perhaps the most unusual of the devices used by Telephone's field representatives is the suggestion that members should increase their payroll savings to be able to take advantage of the American Telephone and Telegraph Company's next employee stock offer. The last one offered stock to AT&T workers at 85 percent of market price.

Training program for fieldmen. All field representatives receive a copy of Telephone's Representatives' Handbook and a monthly mailing which includes the balance sheet of the previous month, a copy of the minutes of the directors' last board meeting, the agenda of the next board meeting and a copy of *Facts*, the Cleveland Better Business Bureau's monthly publication.

Each month some twelve to fifteen field representatives attend an educational session, combined with a dinner meeting, at the credit union's expense. Also present are the chairman of the education committee, a representative of the general membership, and a member of Telephone's office staff. Purpose of these meetings is to give all field representatives at least one opportunity each year to discuss problems and ask questions in a small group. All questions asked at these meetings are taken down in writing. And treasurer Brown answers them in a speech during the next semi-annual meeting of all field repre-

First assistant treasurer Margaret E. Barton is a graduate of the CUNA School for Credit Union Personnel.

"Vaults, too, should be planned carefully," says Wilbur Brown. "Their location is important. They should be wide enough to make their use practical in an active office."

sentatives. These meetings also are dinner events. They ordinarily take place during May and October. At last fall's meeting 175 field representatives participated.

Selecting replacements on field force. A fieldman leaving his location suggests the name of a replacement to assistant treasurer LaNore Cash. Mrs. Cash is a loan interviewer who has the special responsibility of maintaining liaison with the outside field representatives. "The type of person whom we like to see recommended for a field representative's vacancy," says Mrs. Cash, "is a member who is close-mouthed and responsible. We invite the prospective field representative to attend the next board meeting. And at the following month's education session we carefully examine each prospective candidate concerning his qualifications for the opening."

Committees. The directors of Telephone Credit Union believe that the most democratic and efficient method of credit union administration and membership education is through representative committees. Last year Telephone's eleven active committees held more than two hundred meetings.

Executive. This committee meets formally once each month. It is com-



posed of the credit union's president, secretary, vice-president and treasurer. Senior member of the group is Charles A. Ropes, an electrical engineer, who was Telephone's first treasurer and has served as president continuously since 1949. Ropes and Brown see each other every morning while riding to work. The committee acts on policies and functions between board meetings. Its actions are subject to review by the board.

Advertising. Headed by treasurer Brown, this committee meets two to three times weekly. It handles public relations, selects advertising media, and originates and publishes copy. Telephone's members receive direct-mail publicity materials once each month. Contents, motif and emphasis always vary. But each mailing stresses Telephone's motto: "It's nobody's business but yours..."

Annual meeting. Four board members comprise the nucleus of this committee which meets ten times during the year. It draws freely on the office staff for assistance. The committee prepares ideas and plans for the annual meeting and submits them to the full board. After board approval is obtained, the committee makes regular progress reports. For 1958, Telephone's budget set aside 3½ percent of gross income as anti-

cipated annual meeting expense.

Delinquent loans. Meeting once or twice each month, the two directors assigned to this committee are responsible for all follow-up on delinquent loans. They also recommend charge-offs to the board in those cases in which they have exhausted all means of collection. As of March 1, 1958, delinquencies at Telephone numbered ninety-one and amounted to \$51,010.78.

Education. One member of the general membership, a staff member and three of Telephone's fifteen board members serve on this committee. During its monthly meetings it develops and presents training programs. A large portion of the committee's work is geared toward assisting the outside field representatives.

Financial. The personnel of this committee is the same as that of the executive committee. Treasurer Brown serves as its chairman. The committee recommends monetary policy and investments to the full board.

Historical. Headed by one of the directors, the historical committee is gathering material for a comprehensive history of The Telephone Credit Union.

Pension. Two directors are

charged with the duty of studying pension plans and benefits for action by the entire board. The committee meets at the call of the chairman.

Long-range planning. Preparing a program for future services, growth and action for the board's consideration, is the function of this five-member committee. All of the planners are directors. The committee meets four times annually.

Membership. Chairman of this committee is one of Telephone's outside field representatives. Its three members meet quarterly. During 1957 the committee redesigned the membership application form so that it would show more information about the individual. The board combined the committee's proposals with some additional suggestions of the office staff. The new form is now in use.

Personnel. Five times each year six board members, under the chairmanship of Telephone's vice-president John S. Henshel, review the employees' wages and working conditions. The committee is also responsible for job evaluation, hiring practices, and adjustment of grievances.

"Since all our members are telephone employees," says treasurer Brown, "it is only natural that they should expect their credit union to

make extensive use of the telephone as an instrument of communication and service. Members do a substantial amount of their credit union business over the telephone. To gear our membership services to telephone inquiries, we employ two girls who constantly answer the telephone, write out papers in response to telephone requests and mail out checks. Our files are arranged for the convenient access of our telephone clerks. Members make both share withdrawals and loan applications by telephone. To facilitate member identification over the telephone, we issue each member a plastic identification card which bears an imprint of his share account number. We have trained our members to carry these cards with them and to identify themselves by their account numbers."

Numerical filing

Ledger cards are filed by share account numbers at Telephone. "Numerical filing has two advantages," first assistant treasurer Margaret E. Barton points out. "It eliminates the need to spell out names over the telephone and it does away with the common mistake of picking up the wrong ledger card because of similarity in names. Both of these advantages in effect reduce the time needed for answering telephone inquiries. Our members appreciate prompt and efficient service. Many of them call us long distance. We give preferential treatment to long distance calls. And by handling their calls quickly the members save through lower toll charges."

Loan requests are transferred by the telephone clerks to one of the loan interviewers. The credit union has three full-time interviewers. But five supervisory employees can handle loan applications. Two of the three interviewers are assistant treasurers.

Several years ago Telephone was faced with a serious space problem. Should it build? Or was renting the answer? Careful and extensive study convinced the board that the most practical and economical solution was to rent in the downtown business district. Telephone rented a street-level section of a sixty-year-old office building in the heart of downtown Cleveland. It obtained a ten-year lease for a large office, with two five-year options for renewal. And it then proceeded to rebuild this room completely according to its own de-

sign and specifications. The result is 4,000 square feet of efficiently appointed office space with ample room for members and a growing credit union staff. Located on a high ceiling main floor and a low ceiling mezzanine level, the facilities include a board room, an employee room, air-conditioning, large picture windows, a fire proof vault, a night depository, acoustic tile, soft fluorescent lighting and an automatic water sprinkler system. Ample parking space is conveniently available at two near-by company lots. The architects planned the layout to serve a membership of 9,000 and allowed room for five tellers (four employed now) and five interviewers (three employed now). The question of interviewing booths Telephone resolved in favor of the substantially lower cost of open desks. "We prefer to live in a glass house," smiles assistant treasurer Ruth Cook, in charge of interviewers. "Each of our interviewers has fourteen feet of space at her disposal."

Cost of Telephone's custom-built office is \$5.04 per foot per year. This includes depreciation, rent and cleaning. Water, heat and light are not covered by this sum. But it does include building insurance against the possibility that the landlord may not be able to live up to his agreement due to fire, high water, catastrophe or other reason. As a further protection, Telephone maintains a building fund reserve of \$50,000.

Interest rate at Telephone is 1 percent per month on the unpaid balance. But for prompt payment the Cleveland group charges only 8/10 of 1 percent. The differential of 2/10 of 1 percent is an anticipated patronage refund. Dividends paid on member shares have been 3½ percent for 1957, 3 percent for the previous eight years.

Death benefits

"Letting the debt die with the debtor" is a time-honored tenet of credit union philosophy. At each annual meeting Telephone's membership passes a resolution reaffirming its intention to practice this philosophy and authorizing its board of directors to write off the outstanding loan balances of deceased members. To prepare for the liability of deceased members' loan balances, Telephone has developed its own system of self-insurance. It consists of a special contingency reserve fund of

\$10,000. Whenever the death of a borrowing member reduces the balance of this contingency fund, it is replenished monthly with 5 percent of Telephone's gross income.

Purpose of the self-insurance plan is to save premium costs. Telephone's experience over some twenty years shows that premiums would have amounted to several times the sum of actual self-insurance expenses. From 1936 through 1957 a total of fifty-eight borrowers died. Their aggregate loans amounted to \$33,705.45. And this amount Telephone wrote off. "If we had carried loan protection coverage with an insurance company," remarks treasurer Brown, "and 1957 had been our first insurance year, our premium for 1957 alone would have been \$23,000, minus a possible dividend."

Telephone's self-insurance plan meets with the approval of the state's supervisory authority. But in the formal view of the Ohio Division of Securities this program does not constitute insurance.

Active in movement

"Although our method of self-insurance is working out splendidly and has already saved us thousands of dollars in premiums," concludes Brown, "I would not want to recommend it to other credit unions. The circumstances vary too much from credit union to credit union. And while our experience has been excellent, self-insurance might not meet the needs of other groups."

Participating actively in chapter, league and national credit union affairs is a tradition at Telephone. On the league and chapter level it has furnished board and committee members, convention speakers and program chairmen. Two of its members, Dave Horsfall and Wilbur Brown, have served the Ohio league as presidents. Charter member Charles A. Ropes, Telephone's president, is currently serving on the board of the Cleveland Chapter of Credit Unions and is a member of the chapter's service committee. Wilbur Brown has served this group as program chairman, vice-president and president. His many responsibilities on the league level include seventeen years of work as legislative representative. On the national scene Brown has served continuously since 1947 as a National Director of the Credit Union National Association.

in the NEWS



A Wyoming Credit Union League was formed March 22 by representatives of 23 of the 40 Wyoming credit unions. Officers are Ralph Moll, president and national director; Frank A. Roberts, vice president; Miss Jacqueline Tyson, secretary-treasurer and acting managing director; E. A. Grant, Frank Trelease and R. Cristler, directors. The league will apply immediately for membership in CUNA. A Wyoming Central Federal Credit Union was also organized.

A study of the growth of individual savings in the U.S. shows credit union shares were 0.5 per cent of total savings in 1950, and that they jumped to 1.0 per cent in 1955, and by September of 1957 were 1.2 per cent of all individual savings in the U.S.

Candidates for election to the CUNA Mutual Insurance Society Board of directors are as follows: Board nominees (directors whose terms are expiring and who are running for reelection) are Harold Moses, Louisiana; William Reid, N.Y.; A. P. Quinton, Ontario; Joseph S. DeRamus, Illinois and W. A. Dunkin, Missouri. Independent nominees are Cecil E. Burdick, Texas, and R. F. Williams, British Columbia. Biographies, from information provided by nominees themselves, will be read at all area meetings.

A last-minute report from Washington says the House Banking Committee has reached an agreement to eliminate from the Financial Institutions Act the provision granting the Director of the Bureau of Federal Credit Unions authority to require independent audits.

A. L. Nicholas, named "International Brother's Keeper" on Credit Union Day last fall, has left for Europe on the trip he received as the CUNA award in the contest. Nicholas will return in time to attend the annual meeting of CUNA in May.

San Juan Credit Union, first in Peru which joined CUNA, now has loan protection and life savings insurance.

A training conference in Spanish, for credit union leaders in Central America, will be held

July 13-26, during the same time the CUNA School for Credit Union Personnel is going on at the University of Wisconsin. The Costa Rica school is sponsored by CUNA in cooperation with the Pan American Union, the National Bank of Costa Rica and the Caribbean Cooperative Confederation.

German credit unionists, spurred by "Raiffeisen Savings Week" promotion, added \$25 million to their savings in the 10,237 Raiffeisen Societies that participated in the drive. Membership increased 69,541, and these new members saved \$4.2 million. (Increasingly, credit unions are running share and membership campaigns during Credit Union Week.)

The CUNA Caribbean regional conference in San Juan on education and public relations in April drew 124 participants from 11 areas: Puerto Rico, Trinidad, Montserrat, Jamaica, Dominica, British Honduras, Antigua, St. Christopher, El Salvador, Chile, Singapore. Co-sponsors were Puerto Rico Federation of Credit Unions and the University of Puerto Rico. Sessions were conducted in English and Spanish.

New representative of the New York State league in the metropolitan area of New York is Leo Schwartz, who was previously on the staff of the Bureau of Federal Credit Unions.

Excess bad debt reserves of a savings and loan association, accumulated prior to 1953, may be transferred to the undivided profits account without incurring a tax liability, the Commissioner of Internal Revenue has ruled in Washington.

New subscriptions in March for The Credit Union Bridge again broke records—1,751—compared with 796 in March, 1957. February and March showed highest monthly totals since records were kept in 1939.

The traditional spring buying just didn't materialize this year, and retailers say the pre-holiday sales lag has pulled their totals below a year ago. Dealers hope the weather is to blame, ruefully admit recession is probably a bigger factor in buyers' caution.

Fourteen students from credit unions have completed the public speaking course conducted by St. John's College extension department, in cooperation with the British Honduras Credit Union League. The course met two nights a week for 12 weeks in Belize.

Afraid of lay-offs, workers are saving every cent they can, a Wall Street Journal roundup shows. This thrift trend is a sharp reversal from 1957, when people were saving less than in 1956. Economists are not sure that this isn't aggravating the recession, and some question whether the savings are held by people most likely to be hit by a continuing slowdown.

Applications for the **School** for Credit Union Personnel to be held in Madison July 13-26 are coming in rapidly, and attempts are being made with the University of Wisconsin to enlarge facilities to accept more than 50 first-year students. All applicants will be notified of acceptance within two weeks following receipt of their applications.

In Canada department store **sales** were 2.4% greater in February this year than last. Quebec, Ontario and British Columbia showed small declines, however others made big gains: Atlantic Provinces 8.3%; Manitoba 7.2%; Saskatchewan 8.4% and Alberta, 10.6%.

Rev. J. P. Sullivan recently received a letter from the secretary of state for the Holy See, which said the **Pope** was informed of the "praiseworthy work" being done by the credit union movement in Jamaica and sent "expression of his paternal interest and encouragement . . . always solicitous for the material as well as the spiritual welfare of His children, without distinction of religion, race or colour, the Holy Father could not fail to derive comfort from the knowledge of the meritorious achievements, both economic and social of the credit union movement."

The Michigan Credit Union Foundation will offer a number of **scholarships** to the 1958 CUNA School for Credit Union Personnel. Each chapter is being asked to nominate two or three persons. The Foundation's trustees will select one or more qualified persons from each of Michigan's 11 districts, with a probable maximum of 15 scholarships being given.

The Portland (North Dakota) Credit Union reports that it has gained \$65,000 in shares since inaugurating its **Operation Impact** program. This is 65 percent of its announced

\$100,000 goal. The credit union also has signed up 153 new members, which is 25 percent of its goal of 600 new members.

Ten National Tea stores in the Chicago area will offer shopping housewives facilities for making **payments** on mortgages, opening new savings accounts or withdrawing savings through an agreement with Chicago's First Federal Savings & Loan Association.

CUNA's public relations department has reprinted excerpts from the National Council of Churches' Consultation on the Churches and Cooperatives and Mutual Businesses, with quotes on credit unions from **Protestant** sources. The folder, titled "Protestants Praise Credit Unions," will be sent to all leagues and credit unions in Protestant groups. Write public relations department for extra copies.

The Rev. E. W. Mueller, secretary of the Rural Church program of the National **Lutheran** Council, has written 5,400 pastors of rural Lutheran churches asking them to explore the possibility of organizing a credit union for their parish members. The letter refers interested pastors to league offices for information, with the names and addresses of all U.S. managing directors provided on the back of each letter.

In the National **Thrift** Essay Contest, which was locally sponsored by the Maryland league with other thrift organizations, a high school boy, Michael Kotzin, won third place in honorable mentions and will receive a certificate from the Maryland league in May. (For information on this contest write Miss Helen White, Executive Secretary, National Thrift Committee, 121 W. Wacker Drive, Chicago 1, Illinois.)

Dwight J. ("Jerry") Brohard, formerly administrative assistant, was named director of education and public relations for the **California** Credit Union League. New assistant to the managing director is Lance S. Barden. Brohard replaces Robert Rodreick, who joined the CUNA staff April first as assistant director of education.

The Cooperative Farmer, Manila, carried an illustrated feature story on credit unions in the Western Hemisphere in the February issue.

During the last 10 years, the number of borrowers with incomes of \$3,000 and less declined 39%, but at the same time there was a 412% increase in borrowing by families with \$7,500-plus incomes!



Side by side and block after block, finance companies in Texas' big cities operate on a variety of plans, some legal, some not. Estimated annual take in Texas: \$50,000,000.

DRIVE 'EM OUT OF TEXAS!

Will Wilson, attorney general, wants to clean out loan sharks, and he has a reputation for getting things done.

HIS voice was an unemotional drone as Will Wilson, the attorney general of Texas, told the Dallas Credit Union Chapter about his plans to drive loan sharks out of the state.

He is a mediocre speaker.

Nevertheless, he is the hottest young politician in Texas and figures prominently in all discussions of future governors.

To the Dallas credit union group, on Credit Union Day, he revealed for the first time his plans for a small loans cleanup. Since he had already, in a four months drive, cleaned out vice in the sin-ridden port of Galveston, his words carried not only interest but conviction. In as much as former governors and attorneys general had promised and failed to clean

up Galveston, Wilson's performance marks him as a man whose lightest word may mean a bruise for somebody.

He is not large. He stands maybe five feet ten. He's forty-five, and his thin hair is cut so short that it bristles. His face shows signs of battle; he looks like somebody who has recently emerged victorious from a fight in an alley. His soft voice is deceptive. He is frequently described as "the most honest and fearless, politically and physically, man in Texas."

He is a native of Dallas. In his youth he took a degree in geology at the University of Oklahoma, then a law degree with high honors at Southern Methodist. He taught law at Southern Methodist and Baylor, then practiced in Dallas for four years. In

1941 he served a year as assistant attorney general. During the war he commanded a field artillery battalion in the Philippines and won a bronze star in New Guinea.

In 1947 he defeated four opponents to become district attorney in Dallas. Twice he was re-elected. He made a fighting reputation so that he was one of five district attorneys invited to a national conference on organized crime. In 1950 he won a close race for the state Supreme Court. He left the bench in 1956 to enter another bitter contest for attorney general. The clean-up of Galveston came in early 1957.

But loan sharks arouse Wilson's combative instincts even more than the slot machines and bordellos of the port. "The loan shark campaign gets more consistent priority from our office than any other effort, even Galveston, because so many people are affected," he told the Dallas meeting. Wilson's right-hand man in the campaign is young Larry Jones, chief of the new finance law division. Jones is ten years younger, has more hair and youthful good looks, and is possibly as dedicated a man as Wilson, whom he calls "Judge."

Wilson and Jones, working with the state's 254 district and county attorneys, propose to see to it that the Texas usury law is enforced. The maximum rate in Texas, with no exceptions, is 10 percent. This is embedded in the constitution and specified in the Texas Credit Union Act. It accounts for the fact that small loan reform has been so hard to get in

Texas, and explains why Texas is sometimes called The Loan Shark State.

Five years ago a Texas newspaperman estimated that Texans were paying loan sharks \$50,000,000 annually, or about half the nation's total. Take this case reported recently from Houston by the better business bureau: a woman started by borrowing \$150 from three loan sharks five years ago. By last Christmas she had paid back more than \$10,000 to thirty-nine loan sharks and still owed \$2,284. Her monthly charges had risen to \$576.80.

Nothing But the Facts

"When we took office on January 1," Wilson told the Dallas Chapter meeting, "one of the first things which our department set out to do was to get the facts on the current methods of small loan business operations. Then late in the spring the State Board of Insurance called upon our department to assist them in making a study of credit insurance . . .

"During July, August and September five assistant attorneys general traveled over eight thousand miles throughout the state digging for facts about the small loan industry with particular emphasis upon the use of credit insurance. These investigators visited ten cities in different sections of the state, including Fort Worth, Houston, Galveston, Corpus Christi, Dallas, San Antonio, Amarillo, Temple, Killeen and Waco.

"They examined operations in forty-four loan companies, ten credit

life insurance companies, and two banks which used credit life insurance. Large companies, middle-size companies and small companies were visited . . ."

The Texas statute authorizing the sale of individual credit life policies has made it advantageous for a certain group of lenders to specialize in loans under \$50, Wilson said. "For this reason, there are a number of companies which as a matter of policy will not lend more than fifty dollars . . . A borrower may come in and want to borrow more than fifty dollars—let's say, one hundred dollars. This company will tell him that they cannot lend him more than fifty dollars. They lend him that much and refer him to another office for the other fifty dollars he needs."

"The same common ownership may make as many as two or three loans in the amount of fifty dollars each to one borrower through two or three different offices doing business under different firm names. They sell him several policies of credit insurance instead of one."

Other abuses were found in the field of credit insurance. "Another practice, surprising to me," said Wilson, "is that although these borrowers are buying insurance they are not receiving copies of the insurance policies. It seems fundamental that a person who pays for insurance should know what insurance he has and have in his possession a policy showing the coverage and the cost of the insurance, as well as the other pertinent information about the insurance."

Like a fighter itching for combat, Texas Attorney General Will Wilson relishes a continuing skirmish with the loan sharks. Betting is that Wilson comes out ahead.

The flashy car and the Flying Red Horse—these symbolize Dallas and its up-reaching skyline. The loan companies along Pacific Street also are typical.



But these fifty-dollar loan companies are not the only operators in whom Wilson is interested. Wilson listed "open-note operators," "brokerage plans" and "guarantee or pledge plans" as among the loan shark deals in which more than the legal 10 percent per annum is exacted from borrowers. The open-note operators charge the highest rates, he said. Next come the brokerage or pledge-plan operators. Those who rely on insurance charges actually are somewhat more modest in their actions.

"The small loan house must be put in order," he told the Dallas Chapter. "One effect of law enforcement in the field may well be an increased interest in credit unions. Many employers are encouraging credit unions as one means of keeping their employees out of the hands of some of the more exorbitant of the small loan companies. The credit unions provide a local creative capitalism which both encourages savings and provides a source for small loans at reasonable rates."

Three weeks after the Dallas Chapter meeting, Wilson submitted to the State Department of Insurance his report on current uses of credit insurance in Texas. It was loaded with bombs. Conceivably it will force legislative action.

One practice Wilson's investigators paid special attention to was the operation called "flipping." "This is a procedure," the report explained, "whereby the borrower is charged a sum for renewing or refinancing a

loan instead of being credited with a part payment to his loan account." The borrower comes into the loan office and offers to make a partial payment instead of the full payment scheduled; the loan company rewrites the original note and charges him the amount tendered as a fee for renewal. "Some companies call this fee an overage and no credit whatsoever is given the borrower on his payment record for this amount."

Wilson's investigators were instructed to make a special search for flipped loan accounts. The first loan they selected, at random, had been flipped eleven times. "It was determined," says the report, "that some companies make a practice of 'selecting' a number of borrowers with good payment records and convincing them that it is to their advantage to renew their note rather than pay it down."

Flipped for Eight Cents

One case described was that of a woman who had financed a washing machine through a loan company. "She had paid her loan obligation down to \$298.82. At this point, the lending company convinced her that it would be to her best interest to refinance the loan. Unfortunately, she agreed to do this. The company made the following charges: \$8.00 for the life insurance premium, \$36.96 health and accident premium, \$14.79 interest discount, \$7.00 service charge, \$18.43 for transportation insurance, bringing the total amount of her note back up to \$384.00, the original point

of beginning. As a result of this refinancing transaction, the net cash received by this borrower was eight cents."

The investigators found that flipping sometimes leads to one borrower carrying several credit insurance policies to cover the same loan.

The pledge-fee operation is another interesting Texas development. "Under this method of operation," the investigators found, "the borrower who was loaned money only on his signature was required to have a co-signer on his note. This co-signer could not be anyone selected by the borrower, but instead had to be a specified pledge company, a partnership owned by the directors of the loan company. This pledge company charged a fee for the use of its name as a co-signer, and this fee was collected by the lending agent."

The protection for which the borrower was paying didn't mean much, the investigators discovered. "Upon default of the borrower, the pledge company was never called upon to pay off the obligation, but rather the borrower's delinquent account was turned over to a collection company. This amounts to nothing more than a sham operation to supplement the income of the loan company."

This practice first appeared, apparently, when 1956 legislation curtailed the lenders' ability to pad their income through insurance commissions. "We have discovered," said the report, "that the pledge fee or guarantor's charge is in widespread use throughout the state, and in many



instances the companies do not use it merely to bring the rates back up to the 1956 level, but instead bring the costs on a fifty-dollar loan for three months up to as high as seventy-two dollars as compared to the 1956 level of \$67.80. Only in a few instances was the pledge company or guaranteeing company actually called upon to pay off every default it guaranteed."

A conspicuous group in the Texas small loan industry are the companies that specialize in loans of \$5 to \$50. They make themselves well known "by signs painted on the front of these companies; by signs displayed inside these loan companies; by telephone directory advertising; and by direct mail advertising. These companies are actually quite numerous on a comparison basis. Some of these offices have outstanding loan volumes in excess of a quarter of a million dollars in a single office . . . Upon further investigation we have found that quite a number of the five to fifty loan companies in the same town or city will have a common management and ownership. One company or one individual may do business in a number of locations under different trade names in the same town." The purpose of this multiple schizophrenia is to maximize profits under the restrictions laid down in 1956 on insurance rates. The usury law is evaded by high extra charges, including insurance premiums.

But the variety of operators is surprisingly diverse. Another type of lender is the so-called broker, who

pretends to be a middleman arranging a loan between a borrower and a source of capital. "There is no legal limitation as to the amount of the brokerage fee," says the Wilson report, "and this practice is not under regulation by any state agency. The borrower signs a promissory note and draws a draft on the lender. The loan company cashes the draft and gives the money to the borrower, and in turn draws a draft on the lending company for a like amount. We discovered, in a coastal Texas city, brokerage operations that were not combined with credit insurance where the charges on a fifty dollar loan for three months ran as high as seventy-nine dollars."

Ceiling: 625 Percent

The worst rates charged, however, were encountered among a small group called "open noters." "In this type of operation," it was reported, "the only document required by the loan company for the borrower to sign is a promissory note. The borrower gets no life insurance or health and accident protection under this type of operation. We discovered that in open-note operations the interest charged usually ran between 300 and 625 percent per annum."

The case for drastic regulation was supported by the finding of the investigators that competition simply does not work in the small loan field. "In our investigation, we found loan companies in very close proximity to each other charging vastly different effective rates for loans. Apparently each

company could get as many loans as they desired without bringing their rates and charges in line with their competitors in the immediate vicinity. . . . It seems apparent that people who borrow money do not necessarily shop around among the loan companies for the best effective rate of interest on the loan. Perhaps the procedures of loan companies discourage shopping around . . . The operating manuals and instruction materials of some of the lending companies suggest that the only concern of most prospective borrowers are (1) how much cash do I get, and (2) how much do I have to pay back per month (or per week)? . . .

"One cannot escape the conclusion that governmental regulation will be necessary. Apparently the 'rules of the game' will have to be made and enforced by government."

In March, Wilson and Jones called a meeting of district and county attorneys and laid their facts and recommendations on the line. They not only had information to present; they had a procedure worked out so that any law enforcement officer in Texas willing to move against loan sharks could start right after breakfast tomorrow. Wilson offered goals for a one-year program:

1. Drive loan sharks from Texas. These he defined as the lenders who have borrowers sign instruments in blank, divide debts into several notes, charge usually about 10 percent per month, refuse to give receipts and keep deceptive records.

2. Remove high-raters from Texas,

From stacks of research papers, Texas Legislative Council staffmen may recommend an effective small loan law to the Legislature. If it passes, Assistant Attorney General Larry Jones (far right) will be charged with its enforcement.

A veteran warrior against Texas loan sharks is Dallas attorney Edward Fritz. This spring he socked seven finance companies for \$45,000 damages. Protecting loan shark victims is his business.



beginning first with the worst offenders. These he defined as those who use less violent tactics than the loan sharks, charge between 5 and 10 percent, per month, encourage flips, charge interest on interest, operate through multiple offices under different names and usually specialize in loans from five to fifty dollars.

3. Learn enough about the small loan industry and sales finance industry to plan an effective anti-usury campaign following a spring law-enforcement conference scheduled for 1959.

The procedure for the district and county attorneys to follow was spelled out in detail:

● **Injunction suits.** These should be filed under article 4646b of Vernon's Texas Civil Statutes, which provides power to file civil injunction suits against any person, firm or corporation habitually lending money at usurious rates. Larry Jones offered suggestions on how to dig out offenders: inquire about local companies, check complaint records, contact people coming out of loan offices, work with your friends and political supporters, ask the attorney general's offices for leads and contacts with witnesses. Suggested forms for affidavits and complaints are available.

● **Handling complaints.** Give thorough handling to complaints about excessive charges and abusive collection practices. Obtain full compliance with requirements of the law, including the \$50,000 capitalization requirement and proper insurance rates. Stop harassment, especially

among Negro debtors. Get maximum knowledge of the industry.

● **Insurance law enforcement.** Effective May 1, 1958, the State Board of Insurance clamps down on excessive premiums and commissions to lenders. Jones said his office has a complete record of all loan companies using credit insurance during the past two years and will check their future behavior. County and district attorneys will be asked to help in the check-up.

● **Complaints about physical abuse.** When complaints of this type are received, they should be investigated to see if criminal statutes have been violated. If so, offender should be prosecuted and attorney general's office contacted for help in criminal investigation.

Time Sales Included

● **Complaints about interest and other charges.** If involving certificate plan, file with department of banking with copy to attorney general. If involving credit insurance, file with commissioner of insurance. If charges are against loan sharks or high-raters, take affidavit and file Article 4646b injunction suit. If against low-raters (a group making larger average loans and charging 24 to 36 percent per annum), handle locally and keep attorney general informed.

● **Complaints about time-sales financing.** Send information to attorney general.

Jones offered the county and district attorneys answers to some of the objections they are likely to hear to this program:

1. The small loan industry says it cannot make loans profitably at the 10 percent rate specified by the Texas constitution. But a well-run loan office does not need nearly the rates they say they need to show a profit.

2. High-raters will say they cannot compete with out-of-state chains. But there are substantial chains in the high-rate group under Texas ownership.

3. Even some of the so-called low-rate chains are Texas-owned and have shown they can compete with the big Northern consumer finance chains.

4. Some say all previous efforts to correct these abuses have failed, and this is just a waste of time. Look the program over, Jones urged, try it, improve it, and let us know about your improvements.

5. You will hear it said that the high-rate lenders are the only source of credit available to their particular class of borrowers. These people actually don't know what sources are available; they need information.

In his office, Wilson told a Bridge reporter: "We recognize that credit unions are one agency which should come in to fill the need for loans which will be created when we close up the loan companies."

Meanwhile, there is some possibility that legislative changes will bring about a more realistic rate structure. Wilson says his job is simply to enforce the law, and he intends to do it, going after the worst offenders first. He believes some banks and some credit unions are probably charging slightly higher than 10 percent; at



the moment he isn't concerning himself with these technical violations. Obviously, the constitutional 10 percent is not and has not been attractive enough to bring in the big reputable consumer finance chains.

In 1955 the Texas Senate authorized a study of small loan laws, but four other studies seemed more important and it got pigeonholed. Last year, goaded by newspaper stories, by Wilson's activities and by Insurance Board action, the House of Representatives called on the Legislative Council to get busy. The House action came on a resolution introduced by Representative Criss Cole, who said:

"The citizens of this state are in many instances being charged illegal and usurious rates on small loans . . . it appears that there is not sufficient law now in force in this state regulating or punishing loan brokers . . . persons in this business are taking advantage of wage-earner borrowers by charging high and usurious rates of interest . . ."

The Legislative Council is a study group made up of the lieutenant governor, the speaker of the House, five senators, ten representatives and a full-time staff. Chief staffman on the small loans project is Frank Miskell, a studious young researcher with additional staff at his disposal. It's too early in the study to predict whether a new small-loans bill will be written, says Miskell. One company, however, is known to have drafted a bill which would make Texas attractive to companies operating in regulated states—without a constitutional amendment. There will be no dearth of witnesses when the committee gets around to calling them.

Fire from Newspapers

For years, Miskell points out, bar associations, better business bureaus and other civic organizations have been amassing information on the small loan industry. One newspaper man, Richard M. Morehead of the *Dallas Morning News*, has been reminding governors and legislators for at least ten years that the people of Texas are helpless in the hands of loan sharks and that Texas law is utterly inadequate. A younger newspaper man, Ronnie Dugger of the *Texas Observer*, has been firing salvos at Governor Price Daniel, whose behavior lately has been a little ambiguous.

Among the dramatic background

figures in this picture is a Dallas attorney named Ned Fritz. The red-headed Fritz has specialized in representing borrowers in litigation against loan companies because, as he says, "nobody else was willing to spend their money and time to do it."

Fritz lost money on this practice for several years, he says, until he had the loan shark pattern well in mind and worked out a system for analyzing complaints. Attracted by Fritz's growing reputation, about two hundred people a year enter his office with complaints about loan sharks. They are given a questionnaire to fill out.

"I look it over," says Fritz, "and I can tell immediately whether they've got a case. Out of two hundred a year, I'd say that one hundred don't pan out. Another fifty do have a case, and I offer to represent them. The other fifty, I just give them advice and tell them they don't have a real case." Fritz estimates about 5 percent of his clients are Negroes.

\$45,000 Treatment

Fritz's best case so far involved a Negro client, Freddie Lee Samuel. Samuel was a nearly-illiterate young man who got trapped in the loan shark net in 1950. At eight different times between May 15, 1950 and November 6, 1951, he got the full treatment. His loans were split, flipped and loaded with insurance charges. Fritz took his case to court, sued several companies for damages, and won the largest verdict in Texas history—\$45,037.10.

Against the Acme Loan Company, the jury found the company had failed to deliver insurance policies, had failed to give Samuel the option of selecting his own insurer, had split his loans to raise insurance costs, had made unreasonable collection efforts including threats to have him fired and accusations of dishonesty. Fritz proved to the jury that these pressures caused Samuel to suffer extreme nervousness, irritability, headaches, indigestion, vomiting, inability to sleep, reduction of working ability, fatigue, trembling muscles, undue perspiration, dizziness, loss of weight, high blood pressure, heart pounding, depression, stomach and chest pains, heart pains and angina pectoris, none of which he had before the Acme collection efforts began.

Against General Finance Loans and Texas State Finance, the jury

found evidence that loans had been split in time and amount to increase charges and to multiply the number of insurance policies paid for. It was found that the companies did not provide services for which they charged, and that collection was pursued in reckless disregard of Samuel's health and welfare.

The jury also found against City Guaranty Company, Southland Finance Company and Atlantic Finance Company on similar grounds.

Not Fast Enough

Fritz asked \$15,000 actual damages and \$5,000 exemplary damages from each defendant. The jury's award included \$10,000 actual damages and \$5,000 exemplary damages, as well as \$37.10 for drug and doctor bills. No negligence on Samuel's part was found.

How will the verdict affect the lenders' future behavior? "It won't make them change their practices immediately," says Fritz, "but it will make them do some thinking. They know I can prove harassment and get those exemplary damages. They'll appeal, but I'm not afraid of that. I haven't lost any usury cases on appeal, though I've had four reversals on technical points."

Fritz's interest in usury goes back to 1948-49 when he was president of the Junior Bar Association. He is one of the few Texans who criticize attorney general Will Wilson for not moving fast enough. Among his other clients are the Texas Credit Union League and the Dallas Teachers Credit Union.

Credit insurance adds technical complications to the Texas problem, as it does in many other states. Last November the Insurance Board held hearings at which Wilson, among others, testified that the old regulations encouraged subterfuges such as loan-splitting. Further hearings were held in February, following which new regulations were issued to take effect May 1. These included limiting commissions to lenders on credit insurance at 40 percent, and a reduction on premiums for health and accident insurance on one-year loans. Nobody seems very satisfied with the results, although it is generally agreed that a step in the right direction has been taken.

The real problem remains—effective control of loan sharks. Closing

(Continued on page 32)

THE NEED FOR RURAL CREDIT



University of Wisconsin photo

Experts on rural life, meeting in conference sponsored by CUNA organization department, agree the farmers' needs are not being met—and offer some suggestions.

A PERMANENT international committee to research the problems and potential of rural credit unions is being set up as a result of a conference on rural credit unions held in Madison, Wisconsin, March 5 and 6 under the sponsorship of the CUNA organization department.

Serving on the committee will be representatives of farm organizations, departments of agriculture, university extension departments and agricultural schools, credit union leagues and other interested groups.

During the conference, in which similar groups participated, there was general agreement that the need for agricultural credit is growing faster than credit sources. Great areas of need are still almost completely unserved, conferees said.

Below are reproduced abridge-

ments of four papers presented at the conference. The men who presented them were E. E. Anderson, a county agent; Baldur H. Kristjanson, economist in the Canada Department of Agriculture; Milo K. Swanton, an officer of the National Grange; and Rudolph A. Christenson of the agri-

cultural research service of the United States Department of Agriculture.

A report on the conference has been forwarded to all state and provincial credit union leagues, and the papers presented are available in full to league staffmen interested in rural credit union development.

The equipment problem gets bigger every day, as more and more farmers are forced to mechanize their operations, reports a county agent,

E. E. Anderson

THE county in which I work, St. Croix County, Wisconsin, is located about thirty miles due east of Minneapolis and St. Paul. The main

agricultural enterprise is dairying; about 50 percent of our agricultural income is from milk and another 20 percent from the sale of veal and dairy beef.

In the past six years we have seen dairy farms decrease from 2600 to about 2000 units. We still milk about 50,000 cows, about the same number as six years ago, so the size of the herds has been generally increasing. This trend has taken place with ac-



tually less help on the existing dairy farms than formerly, and almost all help comes from the family itself.

Many of the younger, more ambitious farmers have increased their herds two and three times in the past few years, from 20 to 25 cows up to 50 to 60 animals.

This move has called for more mechanization and an increased wise use of credit.

Ten years ago, very few farmers had mechanical barn cleaners, but today probably more than half of the barns are so equipped. Automatic silo loaders are coming into wider use the past three years, with probably 60 to 75 units installed each year. In order to reduce the cost of producing milk, the expected trend is toward hay crushers and mow hay driers, to save more of the home-produced protein found in our alfalfa and clovers, thereby saving on purchased protein supplements. Another very recent development is the widespread installation of bulk tank milk coolers, demanded by several of the milk markets in Wisconsin.

Less than a decade ago the above-mentioned machines and equipment were found on very few dairy farms. Now they have become almost a necessity if the dairyman hopes to continue in the business.

Scarcity of acres

Land is definitely a limiting factor for many farmers. There just isn't land available in many cases to add to the present farms. Consequently with the increased size of herds we must make existing acres produce more. This calls for the application of more lime and fertilizer to produce the extra feed—and I might add requires the use of credit in a large percentage of cases.

A dozen or more of our dairymen in the past two years have started green feeding their cattle during the pasture season. This method provides 10 to 55 percent more feed from a given acreage, but it calls for forage choppers and power unloading wag-

ons, plus a paved feeding area. Many farmers are paving their barnyards, a rather costly procedure but another means of cutting the labor requirements for producing high quality milk.

I provide this background information on the dairy farmers' mechanization program to point up the need for expanded and more liberal farm credit in the immediate future.

Now, how does the farmer look at credit? He regards credit as a necessary and valuable tool in order to carry on his business and provide the funds needed to modernize his operation. Most farmers would emphasize the "wise use" of credit is important, and are quick to point out that credit can be abused and often is.

Ideas on rates

Most farmers feel that interest rates are generally too high and the period that loans run is often too short. They favor long-term loans, 20 to 30 years or more, on real estate and major improvements, with interest rates between 4 and 5 percent. On dairy chattels they feel the term should be 7 to 10 years, with interest of 5 to 6 percent, because of the long-time nature of the dairy enterprise. Short-term loans, six months to a year, are satisfactory for feeder cattle and pigs, fertilizer, seed, etc., with interest rates around 6 to 7 percent.

Over a period of years a successful young farmer by renting or share-cropping can build up a sizable dollar value in livestock and machinery, but is still unable to purchase a farm because of the high down-payment required.

It would seem in order, then, that the individual or company making a real estate loan might have more faith in the prospective borrower's honesty and ability and his past record of achievement, as well as the inherent capability of the land in question to produce. In other words, set up these proven young farmers on the land without requiring such large down-payments and for a longer period of years, to enable them to more easily retire the indebtedness.

This procedure could well be patterned after the procedure followed by Farmers Home Administration supervisors, who plan with the borrower all phases of farm operation, family living expenses and debt repayment. Significantly, the FHA

Barn cleaning machinery, silo loaders and paved barnyards are among developments that are increasing farmers' credit needs.

University of Wisconsin photos



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Kenneth Buckley of the University of Saskatchewan said credit is needed to maintain the family farm.



The group voted to set up a permanent committee to continue the study of rural credit unions and rural credit needs.

clients are those farmers who cannot find other sources of credit, yet have made a remarkable record of success and debt repayment.

The beginning farmer

has an especially difficult time getting credit, and deserves special consideration by lenders, says

Baldur H. Kristjanson

ALMOST any proposal for credit union programs to serve beginning farmers raises two questions immediately:

- Is it desirable to expand credit union activities in the agricultural sector? and
- To what extent can the movement meet the needs of the beginning farmer?

The answer to the first of these questions relates to such factors as:

- The experience or results of making loans of various types to farmers. There is a wide range of experience to test in this regard, including highly successful large-scale operations to situations of varying degrees of failure.
- The extent to which rural credit union organization has been neglected. It may be that a drive aimed at developing rural credit union leadership and techniques would produce a sound expansion of the credit union movement as a whole.
- The extent to which credit union funds could be shifted back and forth between rural and urban credit un-

ions during the year, to meet seasonal variations in the demand for loans.

The answer to the second question is to be found partly in decisions about the first, but beyond this there are a number of technical considerations peculiar to the farm finance field.

Let us begin with an identification of three facts of the environment relevant to the question of whether credit unions should expand their services to beginning farmers. These are presented as "facts for our purposes" rather than as unchanging truths. All that is claimed for them is that they are sufficiently in accord with experience to require our attention. They need to be considered.

Fact No. 1: Increases in capital requirements for farming are making it more difficult, year by year, for young people to become established satisfactorily in farming. This can be taken as a fact, provided we agree that (a) increases in capital requirements have not been accompanied by corresponding adjustments in the availability of capital to beginning farmers, (b) standards of living demanded by beginning farmers have risen faster than our ability to provide the conditions necessary for satisfying these demands.

Fact No. 2: There is an increasing reluctance on the part of young rural people to undertake a career in farming. This can be taken as a fact, provided we agree that (a) rural education has narrowed the gap between urban and rural people in terms of

basic skills available for urban occupations, (b) improved systems of communications have virtually closed the gap between the "requirements of life" of rural and urban people, (c) net income for spending by beginning farmers is significantly below that available in urban occupations for a number of years after starting to farm, (d) knowledge of alternative employment opportunities for rural young people is being improved continuously.

Fact No. 3: Prospects for a significant shift in favor of making farming as a career attractive to young rural people are not good. This can be taken as a fact, provided we agree that (a) present uncertainties concerning such national agricultural policies as price supports and surplus disposal will continue for some years to come, (b) technological advances will favor increasingly the adequately financed farm units, and (c) no major change will occur in lending policies of governmental, commercial institutions and individuals.

I think these are the salient characteristics of the prospective farmer's environment which you, as credit union leaders, must assess before entering or expanding the field of credit for beginning farmers. In addition there are operational problems of at least equal significance.

An under-capitalized farm is a poor risk at any time. Since most beginning farmers have limited capital of their own, the size of loan required will be a large one if the loan is to be

reasonably safe. The average credit union is not in a position to take many large loans, because its aim is to serve the many rather than the few.

The time for which the loan is made should be for upwards of thirty to forty years where most of the purchase price of the land is involved. Credit unions would find it difficult to justify this type of lending.

Repayment terms must have a flexibility not easily met by credit unions at the present time. Repayment variability would depend to some extent on the type of farming involved, but in many situations credit unions could meet the necessary variability in repayments only with the greatest of difficulty if at all.

The safety of loans to beginning farmers is dependent upon the supervision and technical advice made available by the lender. Credit union facilities at the present time could provide both of these in the amounts necessary only in selected situations.

It is becoming widely accepted that a credit program for a farmer should be a "package deal." This is particularly applicable to the beginning farmer. He needs the credit from a single source which provides the real estate, intermediate and short-term credit on a planned basis. This means that credit union activity in this field should be examined with a view to either meeting this situation or finding some way of becoming a part of the planned program.

There can be little doubt that credit union activity in rural areas will expand and improve. This is obvious to anyone aware of the untapped field of consumer credit in rural areas. In this connection we should remember that beginning farmers, perhaps more than established farmers, would benefit from membership in credit unions. Beginning farmers have not been given any special attention by commercial credit organizations, thus leaving a challenge to rural credit unions.

Self-help needed

and it fits into the program of the National Grange, says

Milo K. Swanton

AS A farmer I have felt the need for credit. I have availed myself of just about all credit sources, including local banks, special seed loans, Production Credit and the Federal

Land Bank. During four years of the Great Depression, as a Federal Land Bank appraiser in Wisconsin and Michigan, I checked the physical properties and evaluated the human element on more than nine hundred farms, rejecting some but in the aggregate recommending loans in excess of \$4,500,000. This experience provided a golden opportunity to judge the mistakes of others, to learn the forces and frailties of human nature, and to gain an education in farm management never offered in college.

The National Grange fully recognizes the impact of today's "agricultural revolution." New methods, new materials and new machines have all combined to increase per acre, per animal and per man-hour productivity. This leads to fewer and larger farm units and to a far greater investment per farm worker. The increase in farm investment per worker rose from \$3,631 in 1940 to \$15,163 in 1956, and continues upward. Scientific agriculture requires investments in lime, fertilizer, insecticides, hybrid seeds, and many other requirements little known to the farmer of yesterday.

Paying the heirs

The National Grange has kept an eagle eye on farm interest rates, insisting that loan costs be kept down as close as possible to an actual cost basis. Master Newsom points to a peculiarity in farm credit that cannot be lost sight of, stating, "The agricultural plant of the United States must yield about two-fifths of its equity every generation to pay off those heirs who leave the farm and go to town." Because farming is both a business, a way of life and an integral family enterprise, this obligation to finance "descent-of-property" within families constitutes a significant phase of rural credit needs.

I can think of no general farm organization more completely in accord with the concept of self-help than is the National Grange. For that reason, the Grange has always been a vigorous advocate of farmer-owned and controlled cooperative marketing, service and farm supply purchasing associations. Consistent with this, the Grange has advocated the retirement of government capital from the Farm Credit system, so as to give farmers themselves more complete control over their own Farm Credit services.

Your credit union program is closely in step with such self-help concepts. Your credit unions are also self-help constituted. They, too, seek to help their own members who are in need of credit.

In many parts of these United States, local Granges have worked closely with credit unions. An example of this is found in the state of California, where there are 39 Grange credit unions, with 11,897 members, with assets totaling \$4,774,245 and with loans amounting to \$4,134,743. Also, it is my understanding that in Montana there are Grange credit unions, as well as in many other states, including many such organizations in the New England area.

Credit is a tool

There is a growing feeling among these groups that rural people are entitled to consumer credit as well as credit for production purposes. This feeling is growing, and as it grows it is my opinion that credit unions will find an expanding opportunity to serve rural people.

Don't look upon credit as a cure-all for agriculture's economic problems. To us credit is a tool. It is a service to be used in the right way and in the right place. Like whiskey and cigarettes, credit must not be overindulged in.

All of us talk about credit, but we're inclined to soft-pedal the concept of equity. In your credit unions, you apparently preach and teach the importance of saving. You can't lend if there isn't something to loan that has been saved. No individual can expect to start off in the business of farming, beginning at the zero point financially. We must first learn to save, and the borrower should have established an equity that is in reasonable proportion to his needs.

Speaking of the agricultural revolution or evolution, whichever we may choose to call it, brings to mind the fact that a significant development is found in the emergence of a new rural society. No longer is the farmer a hick or a hayseed. No longer is his city cousin just a city slicker. Because of our rapidly expanding all-weather highway system, with the development of a new type of "suburbia," with the growing rate of part-time farming, there is a merging of the gray-flannel suits of the city with the blue jeans of the country. As this merging continues, so the op-

portunity and the responsibilities of credit unions to serve this new hybrid society will grow.

Development credit

is the new need in agriculture, giving the farm family freedom in changing conditions, according to

Rudolph A. Christensen

THE large group of small low-income farmers which exists in agriculture today basically lacks re-

sources and so represents an opportunity for more effective use of credit. To assume this function, however, we must recognize the idea of development credit.

Development credit involves two basic changes in conventional credit policies in agriculture:

- Place more emphasis on future earning capacity of the investment instead of the collateral or the borrower's net worth. This is necessary because the people in agriculture who need to use development credit char-

acteristically have a big opportunity for its use and low net worth to secure a loan.

- We must recognize, too, that going back down the agricultural ladder may be the avenue of development that these people want to, and should, pursue in their development ventures.

These two basic considerations probably represent the biggest gap in our existing structure of credit facilities and policies. These, then, represent the biggest opportunities to put credit to more effective use.

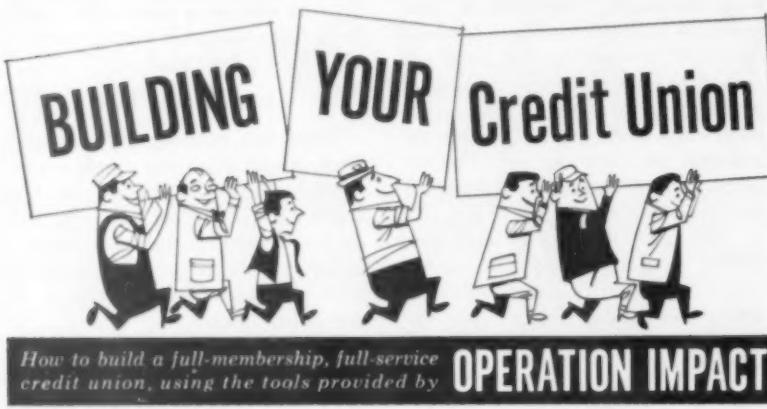
Within this kind of an economic framework we can detect three specific areas where development credit can perform an important function:

- Credit for assisting deserving families to move up into full-time commercial farming. This would include the beginning farmer and others already farming who need to make major adjustments in order to attain this goal.
- Credit for assisting rural families to "ease" their way out of agricultural pursuits.
- Credit for assisting rural families in their present location to make the needed minor or major adjustments in their farming operations.

It seems to be an accepted fact, from the point of view of efficiency of resource use, that there are too many people in agriculture. Many times this movement can only be accomplished by providing some form of gradual transition to non-agricultural life. At this point, part-time farming permits development of off-farm income without giving up the basic unit of farm production.

Part-time farming may appear to many to be an inefficient way to run a farm. In this regard, we should keep in mind that we are not interested in the efficient use of agricultural resources in and of themselves. We are interested basically in the development of human resources and the improvement of living conditions for low-income families in agriculture. Efficiency of resource use is only important as it contributes to family purposes. It follows that if part-time farming adds to the purposes of the family, it can be a legitimate use of resources even if it doesn't result in maximum net income per acre or per cow.

It is important at this point to



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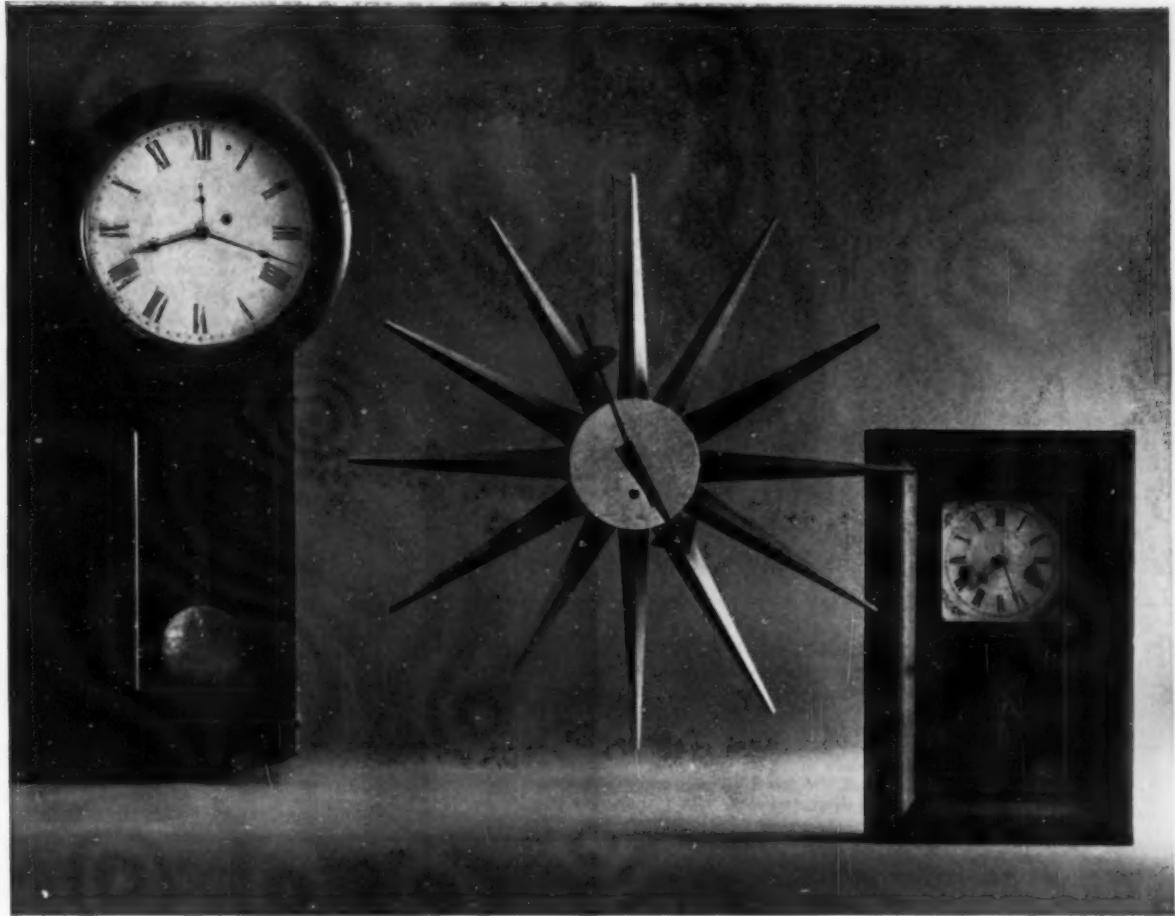
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mention the most significant aspects of part-time farming, which are:

- As a stepping stone to complete non-farm employment and to non-farm life.
- As a permanent way of life.
- As a stepping stone to a larger full-time farm.

Movement out of agriculture is not easily treated as an "either or" choice between farming or full-time employment in the city. Just as an economic farm unit can be established in most cases only by a gradual

process of farm development and capital accumulation, in many cases the movement of people out of agriculture is a gradual process accomplished only by providing some form of transition from agriculture to non-agricultural life. Each presents a different kind of credit venture.

The use of credit in the role of supporting the development trends described here may mean a change in our attitude toward agricultural credit. Advancing loans on the basis of available collateral with the

thought that the only path of development is full-time commercial farming is a relatively simple matter, but if we accept the fact that there are development alternatives and that the family is free to make their own decisions, then the credit problem becomes more complicated.

Many times the rural family with limited capital has excellent opportunities to improve their income earning ability with the use of credit, but because they are short of collateral or sufficient equity, they cannot obtain the necessary credit to effectively increase income. This, in a sense, is the basic conflict in our credit lending policies. Many times rural families in position to make the greatest gain from the use of credit are not in position to obtain it.

The family finds itself tied to the "horse and buggy" economy of yesterday instead of the highly mechanized one of today. They are unable to generate sufficient "home-made" capital out of earnings, and the substitute, which we call credit or "borrowed capital", is not forthcoming. In order for a rural family to break away from this kind of economic situation, it is necessary to provide credit to enable them to take advantage of different development opportunities.

If rural credit is to meet the present-day needs of prospective borrowers and at the same time promote economic progress, it must be developmental in nature. Provisions should be built into the credit venture that will make it possible to capitalize on the economic potential of the under-developed unit. This means using rural credit more aggressively and possibly in a more constructive way than heretofore and in larger amounts than in the past.

5

PROTECTION POINTERS

suggestions for Supervisory and Examining Committee Members

- Conduct a surprise verification of cash on hand and in the bank after arranging a cut-off date with the bank. This should be done at irregular intervals to increase the element of surprise. The bank should be requested to mail the cut-off bank statement and cancelled checks to the chairman of the supervisory committee.
- Take a surprise trial balance of share and loan accounts periodically. Check them against the control accounts in the general ledger and account for all discrepancies. When making a passbook verification, be sure that everyone within the field of membership is informed.
- Be sure that all credit union checks are accounted for, including spoiled or voided checks. Under no circumstances should a check be destroyed.
- Ledger corrections should be made properly, without erasures. Deletions should be made by drawing a single line through the incorrect entry.
- Maintain a careful check on inactive accounts. If a general ledger control account is set up for inactive shares, be sure that the supervisory committee maintains a list of the names of the members and the account balances. Check the balances at each audit period and carefully analyze all transactions through these accounts.

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Let 'em eat cake

To the Editor:

The letter by C. H. Lushbough in the April edition brings to mind that a long time ago, someone told the masses of people that if they had no bread, they should eat cake.

The first educational job of a credit union to do is to make the officers and committee members realize that they are not members of the board of di-



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The CUNA Insurance Services Department provides insurance coverages tailored to credit union needs. Through its continuing program of research, it endeavors to improve existing services, and aids in the development of new ones. Major coverages available through CUNA now include:

CUNA BONDING SERVICE

All credit unions are required by law to carry bonding protection. Through the CUNA Bonding Service a maximum amount of bonding protection may be purchased at a minimum cost. The improvement of existing bond coverage is a primary function of this service. Recommended bond coverage complies with the requirements of supervisory authorities and with State and Federal laws.

CUNA AUTO INSURANCE PROGRAM

The CUNA Auto Insurance Program helps credit unions finance cars for their members, and enables credit unions to provide adequate insurance protection at a reasonable cost. The coordinated plan provides equitable rates, a reliable nationwide claim service, and special protection features. It makes possible "one stop" package auto loan service. Savings are returned to members in the form of dividends, based on premiums paid.

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This bond protects the individual credit union from loss due solely to failure to file or properly record a lien instrument. It saves a great deal of time for busy treasurers. In most areas it costs no more—and frequently less—than recording lien instruments, and it

honors the privacy of your borrowers by keeping their names from becoming a matter of public record.

GROUP ACCIDENT POLICY FOR VOLUNTARY DIRECTORS AND COMMITTEEMEN

The Group Accident Policy protects volunteer directors and committeemen in the event of accident during the performance of the official duties of their office. Coverage is provided through a master contract issued to the Credit Union National Association, Inc. The policy pays up to \$1,000 in medical expenses for any one accidental injury, and pays scheduled amounts up to \$7,000 for accidental death, dismemberment, and loss of sight.

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Most hazards are covered by the General Liability Insurance plan except Workmen's Compensation Insurance. Coverage includes *bodily injury* sustained on any premises owned, leased, or occupied by the League or credit union; *products liability* if the credit union or League serves refreshments. *Non-ownership automobile coverage*, which protects the credit union or League if an employee is found negligent or liable in an auto accident while conducting credit union business, is also available.

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CUNA INSURANCE SERVICES DEPARTMENT

MADISON, WISCONSIN • HAMILTON, ONTARIO

rectors of a large commercial finance corporation, or bank, or building and loan association. The philosophies of the commercial interests and that of the credit union interests are so far apart that one must first delve into the historical background of credit unions so as to understand just what went into them to make them what they try to be today.

Members do save money by borrowing from their credit union whether the loan be for a car, dishwasher, hospital bill, or vacation. Examine your own conscience and mind to see first whether the money you have borrowed was for a provident or productive purpose. Now then, throw the stones.

The use of the credit union loan department is to be used to buy new appliances, cars, down payments on homes, clothing of necessity, and many other items. You do save money by borrowing from your credit union when you borrow for these purposes. The thing to remember is not to get in debt so deeply that your "line of credit" with the credit union is always used up.

Routine living expenditures as shown in the letter can mean many things. If one includes the cost of food, paying the light bill, etc. No. But if it means buying food because there were many extraordinary expenditures caused by sickness, death, or other calamity, then why not? It is the loan shark that takes advantage of such situations and because a credit union fails to heed the call for funds, provided the member is able to re-pay, that makes many of our citizens still slaves to the small loan companies and their 18-24 per cent interest rates plus paper charges.

In my case, I would rather borrow from a credit union for any reason even though it does cost more in some cases, because I know that when I die, and if I am in debt at that time, my debts will also die because CUNA will pay the credit union for my debts. We consider my balance of over \$4,000 at the credit union as additional insurance. If the loan was not insured, my widow would have to pay it out of the proceeds of my other insurances. God does not knock on our door and tell us that on August 4, He will come for our souls. Neither the undertaker who will pick up the body.

Until such time as credit union offi-

cials lay great emphasis upon having their members borrow for those items they would normally have the commercial financial institutions finance, they will have failed to teach their members that you do save when you borrow from your credit union.

Since the great influx of finance company employees into the credit union movement, there seems to be a tendency to veer away from credit union philosophy as handed down by the greats, Filene, Desjardins, Bergengren, and others who did so much for the movement.

These former finance company employees were indoctrinated with a different philosophy of consumer financing. They were taught that the maximum allowed under the laws was the charge for money used. Some were told even that the law "winked" at some of the illegal charges. This was because the borrower did not know the law, and would not protest the illegal collection fees and repossession costs as well as deficiency costs. These people were instructed that a man is only as good as his collateral. The collateral was not what the worth was to the borrower, but rather what its worth was to the lending institution if the collateral had to be sold under the auctioneer's hammer. Credit ratings carry some weight, just enough to put the money out if the collateral is a little shaky, but a co-signer is better because then he can be held liable for another man's debt.

If the educational committee, which should exist in all credit unions, does the job it agreed to do, savings will come. Rather, shares will come into the coffers to be loaned back to the borrowers so they, too, can save for shares.

It is my thought that Mr. Lushbough has made the error of many credit union officials. They do not attend their workshops, week-end institutes, and other courses of study but rather let the treasurer and the paid employees do the job that they should do. This looks to me like his board and committees should wake up and smell the coffee and get to be active in credit union thinking and stay away from commercial lending institutions' way of life. Then, and only then, will credit unions be able to say they have done the job.

L. A. Clayton
Saginaw, Michigan

COMING EVENTS

May 1—NAMD Executive Committee Meeting, Lake Lawn Lodge, Delavan, Wisconsin.

May 2-5—NAMD Educational Sessions.

May 5-11—CUNA and affiliates' annual meetings, Loraine Hotel, Madison, Wisconsin.

May 6—NAMD Business Meeting.

May 7—9:00 a.m., Joint Meeting, CUNA Executive Committee, CUNA Mutual Board of Directors, CUNA Supply Cooperative Board of Directors; 2:00 p.m., CUNA Supply Board of Directors.

May 8—9:00 a.m., CUNA Executive Committee; 3:00 p.m., CUNA Supply Membership Meeting; followed by: New CUNA Supply Board of Directors.

May 9—8:00 a.m., CUNA Mutual Board of Directors; 10:00 to 4:00 p.m., CUNA Mutual Biennial General Election; followed by: New CUNA Mutual Board of Directors.

May 10—9:00 a.m., CUNA National Board Meeting.

May 11—9:00 a.m., CUNA National Board Meeting; followed by: New CUNA Executive Committee; followed by: New Joint Board Meeting.

May 23-25—South Dakota Credit Union League annual meeting, Lawler Hotel, Mitchell.

June 12-16—New York State Credit Union League annual meeting, Laurels Country Club, Monticello, New York.

June 20-21—Washington Credit Union League annual meeting, Davenport Hotel, Spokane.

June 21-22—Montana Credit Union League annual meeting, Rainbow Hotel, Great Falls.

June 23-25—Nova Scotia Credit Union League annual meeting, Sydney.

June 26-28—British Columbia Credit Union League annual meeting, Sirocco Club, Victoria.

July 9—Prince Edward Island Credit Union League annual meeting.

September 17-19—Florida Credit Union League annual meeting, George Washington Hotel, West Palm Beach.

RECENT APPOINTMENTS

Robert A. Wuerl—assistant director, CUNA Insurance Services Department.

Terence J. Weldon—collection agency manager, Wisconsin Credit Union League.

James Goebel—administrative assistant to managing director, Wisconsin Credit Union League.

Jacqueline Tyson—acting managing director, Wyoming Credit Union League.

Charles T. Thompson—field representative, Illinois Credit Union League.

D. J. MacEachern—field representative, Nova Scotia Credit Union League.

Donald Barry—field representative, Nova Scotia Credit Union League.

James C. Simmons—managing director, Mississippi Credit Union League.

Leo Schwartz—field representative, New York State Credit Union League.

C. A. Woolard—educational director, Florida Credit Union League.

for your OFFICERS and COMMITTEEMEN



For
Directors



For the
Credit
Committee



For the
Education
Committee

HOW TO BE A GOOD CREDIT UNION DIRECTOR (Form Ed. 118)—Every credit union director should have a copy of this helpful 12-page, 2-color booklet. Tells how to evaluate the credit union, what decisions must be made, what new directors should do. Highly praised by national leaders. Size: 3 1/4" x 9", stitched.

LENDING THE MONEY (Form D-1)—This smartly designed, 2-color booklet explains the principles which guide credit committee members in their duties. Helpful, readable, valuable. Every committeeman should have this introduction to the detailed information in the by-laws and handbooks. Size: 3 1/4" x 8 1/4"; 12 pages, stitched.

ADVERTISING YOUR CREDIT UNION (Form Ed. 98)—Every credit union needs to advertise. Here's the practical "how to do it" guide. Covers all the important points, including setting the goal, where to start, working out the budget, building loans, savings, and membership; buying materials; how to get advice. No educational committee can afford to be without a copy. Size: 8 1/4" x 11"; 24 pages, 2 colors; stitched.

OTHER HELPFUL MATERIALS:

GUIDE BOOK FOR CREDIT UNION TREASURERS (Form Ed. 34)—Simplified, fully illustrated guide to credit union accounting procedures. Valuable for new officers. Size: 8 1/4" x 11"; 36 pages.

CREDIT UNION AUDITS (Form Ed. 78)—A handbook that makes auditing easy—saves time, saves work, saves errors! Includes simple step-by-step instructions, all needed worksheets, and file record. Each committee member needs one every year! File size, 9" x 11 1/2"; 32 pages.

FEDERAL ACCOUNTING MANUAL—A complete and detailed outline of accounting forms and procedures for credit unions using F.C.U. numbered forms prepared by the Bureau of Federal Credit Unions. Every step illustrated. File size, 9" x 11 1/2".

SUPPLEMENT TO ACCOUNTING MANUAL—Outlines practical procedures and methods designed to assist the larger Federal credit union in coping with the economic and operational problems arising from increased business volume. Size: 8 1/4" x 11"; 70 pages.

AUDITING POINTERS FOR SUPERVISORY COMMITTEES (Form Ed. 64)—The best brief explanation in print of how to supervise or examine credit union records and actions. Useful again and again. Pocket size, 5 1/4" x 8 1/4"; 8 pages.

SUPERVISORY COMMITTEE MANUAL (FCU 545)—Defines the powers and responsibilities of the supervisory committee of the Federal credit union, and outlines a procedure for making effective audits. Prepared especially for the medium-sized credit union. Size: 8 1/4" x 11"; 80 pages.

BOOKS

CREDIT FOR THE MILLIONS—Tells what credit unions are, how they were invented, how they grew, how they operate, and their place in the structure of consumer installment credit. Indexed; 208 pages.

CRUSADE—The stirring story of how the credit union movement grew up in America. Indexed; 379 pages.

THE FEDERAL CREDIT UNION (by Dr. John T. Croteau)—An intensive study of how the Federal Credit Union serves the credit and financial needs of thousands of membership groups. The findings apply to all credit unions. Indexed; 210 pages.

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What about it?



Compensation

What basis do most small credit unions use to determine the amount to pay to a treasurer for his year's service?

ANSWER:

Most small credit unions adjust their treasurers' compensation to their individual circumstances. During its first year of operation a small credit union usually pays nothing to its treasurer. But at the end of the group's first fiscal year it examines its financial status and determines the treasurer's salary for the coming twelve months. After that, the board continues to review the treasurer's compensation annually or semi-annually on the basis of the credit union's earning experience. And whenever warranted, it initiates action for a salary adjustment.

Here are some questions which the directors of a small credit union may wish to ask themselves before determining their treasurer's monthly compensation: "How much money will we have left after setting aside adequate funds from our gross earnings for these eight purposes: (1) Statutory transfer to reserves; (2) a progressive educational program; (3) a fair dividend; (4) a sound bonding program; (5) loan protection insurance; (6) life savings insurance; (7) the supervisory authority examination fee and (8) other known operating expenses?"

After considering all of these items, many small credit unions find that the amount available for their treasurer's compensation is somewhere in the neighborhood of 25 percent of their gross income.

Interest Waiver

Can a credit union waive interest charges during a lay-off?

ANSWER:

In federal credit unions the membership may authorize a waiver if not improperly discriminatory.

But as far as state chartered credit

unions are concerned, the legal situation varies from state to state. In some state jurisdictions it may be possible to waive interest to meet special situations and emergencies such as lay-offs. This depends entirely upon the individual state's laws and regulations and the position which the state supervisory authority takes in regard to such matters.

Own Building

When should a credit union start thinking about having its own building?

ANSWER:

Credit unions of sufficient size and financial ability should start planning their own building whenever they find that their present location is (1) inaccessible to the members or their families; (2) inadequate to achieve the group's full potential in membership and services; or (3) is causing confusion between the identities of

the credit union and the sponsoring group.

World Extension

How can our credit union help in bringing credit union services to groups in other countries?

ANSWER:

Four ways to bring credit union services to other countries are: (1) Supporting the organized credit union movement; (2) participating in local, chapter and league activities; (3) planning World Extension nights and programs with the assistance of the CUNA World Extension Department which is always ready to provide materials, including literature, films and slides and will also help with outlines for speeches; and (4) furnishing the names of interested friends and relatives in foreign countries to the CUNA World Extension Department to establish contacts with groups and people in other lands.

Handling Liquidations

(Continued from page 5)

league dues is going into it each year, but a third of this is rubbed away in write-offs and collection costs.

The state's economic prognosis is hard to guess. It is a high-wage state, and in a period of decreasing profits may continue to lose industry. On the plus side, it has good supplies of water, minerals and skilled labor. The league expects the auto industry will experience ups and downs for some time, but hardly disappear.

Conditions have changed in certain respects since the mid-thirties, Michigan staffers point out. Credit unions are bigger, with memberships running up in the range of 10,000 and 20,000 and even 30,000. Industrial employees are mobile, range farther in search of jobs when laid off, are harder to keep in contact with. There is a larger percentage of industrial wage earners today, fewer government and utility groups proportion-

ately. Sloppy management is more dangerous.

Meanwhile, however, since the debacle at Kaiser-Fraser, the Michigan movement has learned much about fielding the hard ones.

Drive 'em Out

(Continued from page 20)

a loophole or two isn't going to do it. Wilson's injunction program will be watched with intense interest, partly because it's Wilson's program. As Dallas newspaperman Moorehead once said, "He's the kind who would prosecute his own mother if he had proper provocation." Wilson's bulldog personality guarantees that the injunction power will now be tested to its limits.

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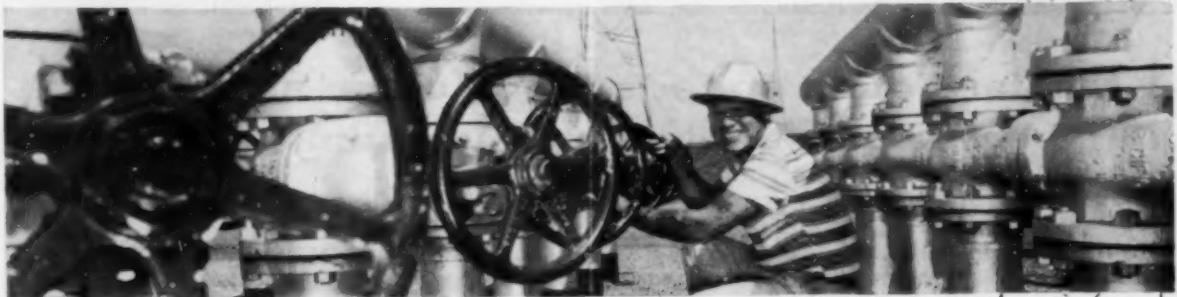
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